Thanachart Securities

BUY (Unchanged)

Change in Numbers

TP: Bt 68.00 (From: Bt 64.00)

Upside : 20.4% **14 JUNE 2021**

Small Cap Research

MK Restaurant Group (M TB)

Bottoming out



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Despite an ongoing third COVID-19 wave, M has started to see improving operations since easing of dine-in restrictions in May, and we expect 2Q21F to be the bottom quarter of the year. We recommend to BUY M into the bottom for a fast turnaround, vaccine play 2H21F. We also view M as cheap, trading below its historical average PE.

An early turnaround play

Despite the ongoing third COVID-19 wave, the government eased restrictions on dine-in restaurants from late May 2021 and M has seen an immediate improvement. Note that the government ordered no dine-in from early May but it relaxed the restrictions in late May with 25% dine-in capacity. M's sales in the second half of May were around 40% higher than in the first half of May. This implies to us that: 1) M's operations are highly sensitive to the country reopening, and it is a good vaccine play to us, and 2) 2Q21F is likely to be the bottom with a turnaround in 2H21F, which puts M an early turnaround play compared to tourism stocks. We cut M's earnings by 23% in 2021F to reflect the third wave impact, but we just fine-tune 2022-23F numbers. With a roll-over to 2022F base year, we lift our DCF TP to Bt68 (from Bt64).

2Q21F likely to be the bottom

M, with its 713 restaurants in Thailand, has been a victim of the outbreak. It saw a 23% fall in sales in 2020 with the low being -52% y-y in 2Q20 during the full lockdown. M incurred a loss of Bt247m in 2Q20. With the third wave in 2Q21, M's sales in April-May were about 50% below the same period in 2019. Therefore, we expect M to again record a loss of Bt130m in 2Q21F. However, we expect the loss to be less than that in 2Q20 as: 1) despite the dine-in restrictions, people can still take home M's foods vs. shopping mall shutdowns in 2Q20, and 2) people have adjusted their life and have been venturing out more often now than during the first wave in 2Q20 despite higher cases this time.

Strong recovery as a high leverage company

M recorded Bt907m in profit in 2020, and we forecast Bt838m in 2021F, still a COVID-19 year. We expect a full-year turnaround in 2022F with 158% EPS growth, which should bring earnings nearly back to 2019. M is a high operating leverage company with fixed costs from 713 restaurants. We see its 65%-owned Laem Charoen Restaurant being a growth driver next year as a tourism turnaround play, as 50% revenue in 2019 came from tourism. We forecast 22% y-y sales growth, 15% EBIT margin (vs. 16% in 2019) and 3% (or 24) restaurant expansion to drive 2022F EPS.

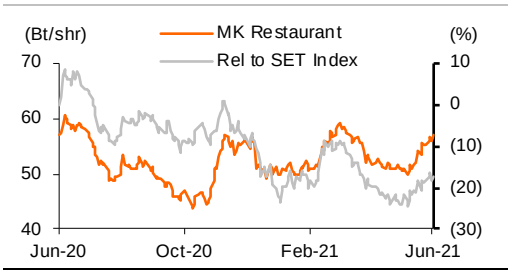
Looks cheap to us

M looks cheap to us, trading at 24x PE or below its average PE of 28x since the listing. The PE also looks cheap to us compared with our outlook of 158% EPS growth in 2022F and another 26% growth in 2023F. ROE wise, we forecast it to rise back to the 2019 level of 18% in 2023F (19%). Moreover, M is one of the strongest restaurant brands in Thailand with the right price point for its strong market position of being a family eat-out restaurant. A 58-year-old well-known company at 24x PE is not too excessive to us. We reaffirm our BUY call on M.

COMPANY VALUATION

Y/E Dec (Bt m)	2020A	2021F	2022F	2023F
Sales	13,361	13,449	16,415	18,680
Net profit	907	838	2,164	2,730
Consensus NP	—	1,440	2,129	2,404
Diff frm cons (%)	—	*(41.8)*	*1.6*	*13.6*
Norm profit	907	838	2,164	2,730
Prev. Norm profit	—	1,083	2,233	2,812
Chg frm prev (%)	—	*(22.7)*	*(3.1)*	*(2.9)*
Norm EPS (Bt)	1.0	0.9	2.3	3.0
Norm EPS grw (%)	(65.1)	(7.7)	158.3	26.2
Norm PE (x)	57.3	62.1	24.0	19.1
EV/EBITDA (x)	14.9	16.1	10.2	8.9
P/BV (x)	3.8	3.9	3.7	3.6
Div yield (%)	1.8	1.6	4.2	4.9
ROE (%)	6.5	6.2	15.7	19.0
Net D/E (%)	(55.2)	(60.1)	(59.0)	(57.9)

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 14-Jun-21 (Bt)	56.50
Market Cap (US$ m)	1,671.6
Listed Shares (m shares)	920.9
Free Float (%)	45.1
Avg Daily Turnover (US$ m)	5.0
12M Price H/L (Bt)	60.50/43.75
Sector	FOOD
Major Shareholder	Group of Thirakomen 70.4%

Sources: Bloomberg, Company data, Thanachart estimates

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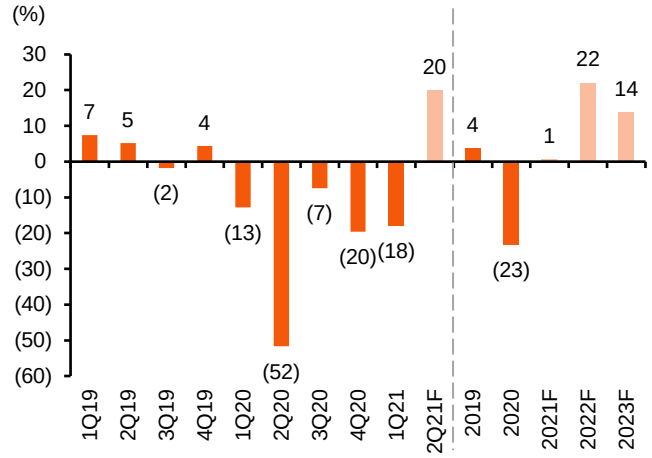
Ex 1: Earnings Revisions

	2019	2020	2021F	2022F	2023F
Sales-store-sales (% growth)					
New	(2)	(28)	(1.0)	18.0	15.0
Old			6.2	13.7	11.0
Change (pp)			*(7.2)*	*4.3*	*4.0*
Outlets					
New	706	722	740	764	790
Old			740	764	790
Change			*0*	*0*	*0*
Revenues (Bt m)					
New	17,409	13,361	13,449	16,415	18,680
Old			14,353	16,612	18,905
Change (%)			*(6.3)*	*(1.2)*	*(1.2)*
Gross margin (%)					
New	68.5	65.7	65.4	66.5	66.8
Old			65.9	66.6	66.9
Change (pp)			*(0.5)*	*(0.1)*	*(0.1)*
SG&A to sales (%)					
New	52.7	59.5	59.4	51.9	50.2
Old			57.6	51.6	50.2
Change (pp)			*1.8*	*0.3*	*0.0*
Normalized profit (Bt m)					
New	2,604	907	838	2,164	2,730
Old			1,083	2,233	2,812
Change (%)			*(22.7)*	*(3.1)*	*(2.9)*

Sources: Company data, Thanachart estimates

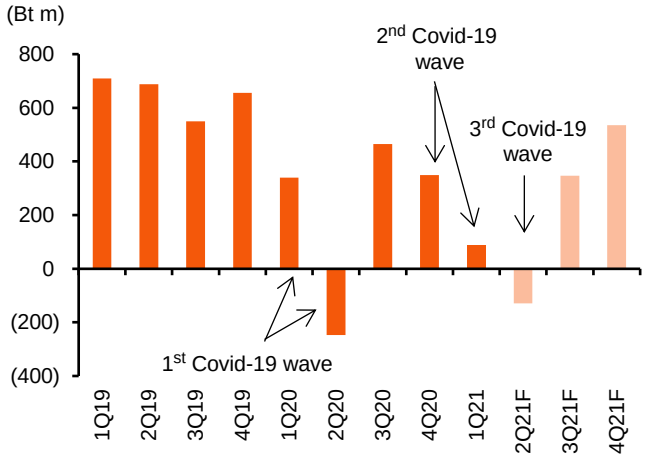
We do not expect a loss of Bt130m in 2Q22F to surprise the market as the impact of the third COVID-19 wave on the restaurant business is well-known. Also, M has already seen an immediate improvement in its operations after the dine-in restrictions were eased in the second half of May 2021. Its sales in the second half of May were around 40% above the level seen in the first half of the month. Having seen a swift resumption in Thai people's dining-out behaviour after the 2Q20 lockdown (Exhibit 3) and as the third COVID-19 wave this year seems to have been stabilised, we do not expect COVID-19 to change the prospects structurally for M's business over the long term. With the vaccine roll-out ramping up, we expect a strong tuarnound in 2H21F. We forecast a full-year turnaround in 2022F with 158% EPS growth, bringing its earnings close to its normal level in 2019. We see M as cheap, trading at 24x PE in its turnaround year in 2022F vs. its average PE since listed of 28x.

Ex 2: Sales Momentum



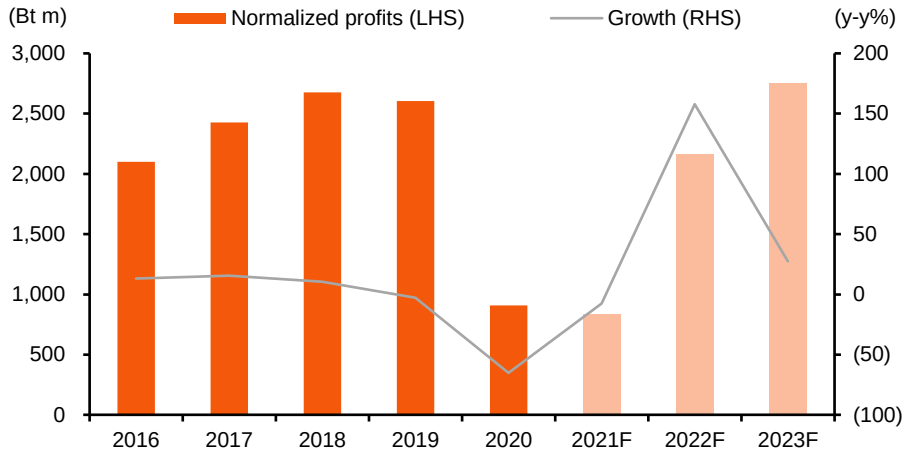
Sources: Company data, Thanachart estimates

Ex 3: Quarterly Profit Momentum



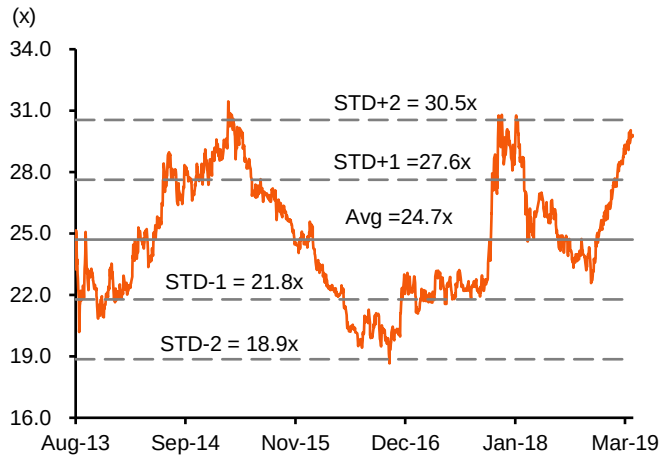
Sources: Company data, Thanachart estimates

Ex 4: 2022F A Normalized Year



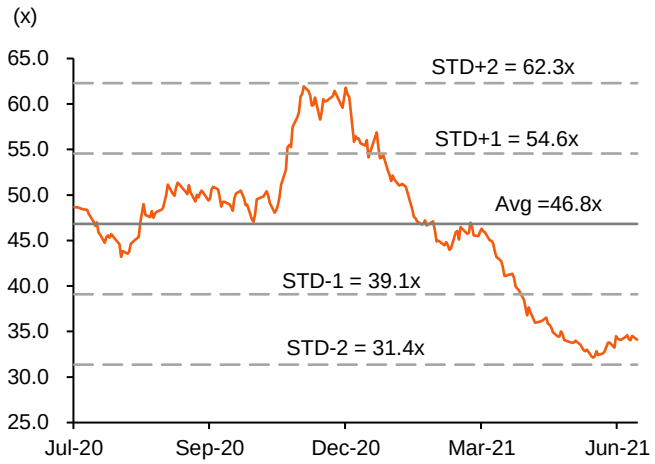
Sources: Company data, Thanachart estimates

Ex 5: Pre-COVID-19 PE



Sources: Bloomberg, Thanachart estimates

Ex 6: During COVID-19 PE



Sources: Bloomberg, Thanachart estimates

Ex 7: M's Share Price



Source: Bloomberg

Ex 8: 12-month DCF-based TP Calculation Using A Base Year Of 2022F

(Bt m)	2022F	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal Value
EBITDA	3,135	3,841	4,163	4,346	4,749	4,944	5,141	5,463	5,722	5,957	6,202	—
Free cash flow	2,571	3,060	3,335	3,525	3,768	3,973	4,147	4,550	4,842	5,108	5,316	75,637
PV of free cash flow	2,564	2,616	2,635	2,574	2,486	2,412	2,317	2,339	2,290	2,224	2,024	28,802

Risk-free rate (%)	2.5
Market risk premium (%)	8.0
Beta	0.7
WACC (%)	8.2
Terminal growth (%)	2.0
Enterprise value - add investments	55,283
Net debt (2020)	(7,642)
Minority interest	324
Equity value	62,601
# of shares (m)	921
Equity value/share (Bt)	**68.0**

Sources: Company data, Thanachart estimates

Note: EBITDA excludes the new TFRS16 accounting standard's financial lease impact

Valuation Comparison

Ex 9: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth 21F (%)	EPS growth 22F (%)	PE 21F (x)	PE 22F (x)	P/BV 21F (x)	P/BV 22F (x)	EV/EBITDA 21F (x)	EV/EBITDA 22F (x)	Div. yield 21F (%)	Div. yield 22F (%)
Max's Group Inc	MAXS PM	Philippines	na	(31.8)	18.0	26.4	1.1	1.2	11.2	9.2	1.7	1.7
Jollibee Foods Corp	JFC PM	Philippines	na	53.4	59.2	38.6	3.9	3.6	13.7	10.1	0.7	1.0
Kura Corp	2695 JP	Japan	na	62.6	41.6	25.6	3.2	2.8	13.7	104	0.7	0.9
Toridoll.corp	3397 JP	Japan	na	175.6	97.7	35.5	3.9	3.7	11.8	9.7	0.4	0.4
Hiday Hidaka Corp	7611 JP	Japan	na	96.2	53.0	27.0	na	na	na	na	0.0	0.0
Yoshinoya Holdings	9861 JP	Japan	na	4.2	65.3	62.7	3.1	3.0	15.6	14.8	0.3	1.0
Cafe de Coral Holdings	341 HK	Hong Kong	311.8	12.2	26.5	23.7	3.4	3.2	10.4	9.3	2.5	3.1
Fairwood Holdings	52 HK	Hong Kong	na	na	na	15.2	3.3	2.9	4.3	3.8	2.3	5.3
Zen Corporation Group	ZEN TB	Thailand	na	56.1	37.3	23.9	2.8	2.7	7.4	6.5	1.4	2.3
Central Plaza Hotel*	CENTEL TB	Thailand	na	na	na	122.7	5.4	5.2	25.9	15.0	0.0	0.2
Minor International*	MINT TB	Thailand	na	na	na	na	2.9	2.9	43.2	13.6	0.0	0.0
MK Restaurants Group*	M TB	Thailand	(7.7)	158.3	62.1	24.0	3.9	3.7	16.1	10.2	1.6	4.2
Average			**152.1**	**65.2**	**51.2**	**38.7**	**3.4**	**3.2**	**15.8**	**18.7**	**1.0**	**1.7**

Source: Bloomberg

Note: *Thanachart estimates, using Thanachart normalized EPS

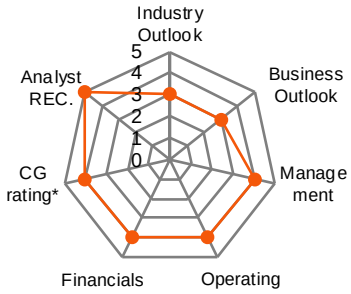
Based on 14-Jun-2021 closing prices

COMPANY DESCRIPTION

MK Restaurant Group Plc. (M) operates the No.1 restaurant chain in Thailand and was established 27 years ago. Its restaurant chain under the "MK Suki" brand was set up in 1986 and it presently has a 52% share of the suki and shabu dining market, No.1 in Thailand. It has more than 476 outlets nationwide. M also runs the "Yayoi" Japanese franchise restaurant in Thailand. As for international expansion, M set up a JV firm with Plenus Co., Ltd. (Japanese firm) to open Yayoi and MK Suki restaurants in Singapore. M also has a franchise business for MK Suki in Japan, Vietnam and Indonesia.

Source: Thanachart

COMPANY RATING



Rating Scale	
Very Strong	5
Strong	4
Good	3
Fair	2
Weak	1
None	0

Source: Thanachart; *Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- Well-recognized and strong MK Suki brand.
- High economies of scale through superior operations and cost control.
- Strategically located countrywide.

W — Weakness

- Weak economy could dampen dining demand.
- Store expansion could result in a shortage of staff or good-quality workers.
- Dependent on retail operators' expansions.

O — Opportunity

- Growing demand upcountry.
- Growing trend toward out-of-home dining.

T — Threat

- Increasing competition from new brands and franchises, both locally and abroad.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	57.08	68.00	19%
Net profit 21F (Bt m)	1,440	838	-42%
Net profit 22F (Bt m)	2,129	2,164	2%
Consensus REC	**BUY: 5**	**HOLD: 3**	**SELL: 1**

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2021F earnings are 42% below the Bloomberg consensus estimate, which we attribute to us factoring in a more significant hit from the new COVID-19 outbreak.
- However, our DCF-based TP is 19% above the Street's, likely because we foresee better prospects for M over the longer term.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- If retailers' growth rates are slower than we currently expect because of the economic situation and consumption, this would negatively impact our assumptions for M's expansion plans, representing the key downside risk to our call.
- If growth in people's spending is weaker than our current expectations, this would present a secondary downside risk to our SSSG assumptions.

Source: Thanachart

We assume M's earnings to recover from 3Q21F

INCOME STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Sales	17,409	13,361	13,449	16,415	18,680
Cost of sales	5,483	4,577	4,656	5,497	6,204
Gross profit	**11,926**	**8,784**	**8,794**	**10,918**	**12,476**
% gross margin	68.5%	65.7%	65.4%	66.5%	66.8%
Selling & administration expenses	9,183	7,947	7,985	8,514	9,377
Operating profit	**2,743**	**837**	**809**	**2,403**	**3,099**
% operating margin	15.8%	6.3%	6.0%	14.6%	16.6%
Depreciation & amortization	777	2,137	1,908	1,845	1,748
EBITDA	**3,520**	**2,974**	**2,716**	**4,249**	**4,847**
% EBITDA margin	20.2%	22.3%	20.2%	25.9%	25.9%
Non-operating income	462	294	255	305	342
Non-operating expenses	0	0	0	0	0
Interest expense	(1)	(73)	(58)	(7)	(5)
Pre-tax profit	**3,205**	**1,058**	**1,006**	**2,702**	**3,436**
Income tax	553	140	134	486	618
After-tax profit	**2,651**	**918**	**872**	**2,215**	**2,817**
% net margin	15.2%	6.9%	6.5%	13.5%	15.1%
Shares in affiliates' Earnings	(41)	(6)	(20)	(20)	(20)
Minority interests	(7)	(4)	(14)	(32)	(67)
Extraordinary items	0	0	0	0	0
NET PROFIT	**2,604**	**907**	**838**	**2,164**	**2,730**
Normalized profit	**2,604**	**907**	**838**	**2,164**	**2,730**
EPS (Bt)	2.8	1.0	0.9	2.3	3.0
Normalized EPS (Bt)	2.8	1.0	0.9	2.3	3.0

A net-cash company

BALANCE SHEET

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
ASSETS:					
Current assets:	8,740	8,310	8,954	9,404	9,585
Cash & cash equivalent	8,033	7,663	8,354	8,654	8,754
Account receivables	158	110	116	139	160
Inventories	358	418	365	466	506
Others	191	119	119	146	166
Investments & loans	0	0	0	0	0
Net fixed assets	3,769	3,254	2,893	2,762	2,620
Other assets	5,432	8,790	8,474	8,534	8,447
Total assets	**17,942**	**20,353**	**20,322**	**20,700**	**20,652**
LIABILITIES:					
Current liabilities:	2,467	2,845	2,800	2,969	2,942
Account payables	1,855	1,312	1,335	1,671	1,814
Bank overdraft & ST loans	0	0	0	0	0
Current LT debt	36	21	44	84	92
Others current liabilities	575	1,512	1,422	1,214	1,036
Total LT debt	**0**	**0**	**0**	**0**	**0**
Others LT liabilities	848	3,661	3,702	3,215	2,749
Total liabilities	**3,315**	**6,506**	**6,502**	**6,185**	**5,691**
Minority interest	320	324	339	371	438
Preferreds shares	0	0	0	0	0
Paid-up capital	921	921	921	921	921
Share premium	8,785	8,785	8,785	8,785	8,785
Warrants	0	0	0	0	0
Surplus	663	660	660	660	660
Retained earnings	**3,937**	**3,157**	**3,115**	**3,778**	**4,157**
Shareholders' equity	14,306	13,523	13,481	14,144	14,523
Liabilities & equity	**17,942**	**20,353**	**20,322**	**20,700**	**20,652**

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2019A	2020A	2021F	2022F	2023F
Earnings before tax	3,205	1,058	1,006	2,702	3,436
Tax paid	(564)	(273)	(98)	(467)	(579)
Depreciation & amortization	777	2,137	1,908	1,845	1,748
Chg In w orking capital	(178)	(555)	70	212	83
Chg In other CA & CL / minorities	485	1,209	(147)	(273)	(258)
Cash flow from operations	**3,725**	**3,575**	**2,737**	**4,019**	**4,430**
Capex	(808)	(242)	(400)	(600)	(600)
Right of use	0	(5,336)	(800)	(100)	(100)
ST loans & investments	0	0	0	0	0
LT loans & investments	0	0	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(2,213)	3,339	10	(1,559)	(1,286)
Cash flow from investments	**(3,022)**	**(2,239)**	**(1,190)**	**(2,259)**	**(1,986)**
Debt financing	(8)	(15)	23	41	7
Capital increase	0	0	(0)	0	0
Dividends paid	(2,394)	(1,658)	(879)	(1,501)	(2,351)
Warrants & other surplus	(79)	(33)	0	0	0
Cash flow from financing	**(2,481)**	**(1,706)**	**(857)**	**(1,460)**	**(2,344)**
Free cash flow	**2,916**	**3,334**	**2,337**	**3,419**	**3,830**

No significant capex requirements

VALUATION

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Normalized PE (x)	20.0	57.3	62.1	24.0	19.1
Normalized PE - at target price (x)	24.1	69.0	74.8	28.9	22.9
PE (x)	20.0	57.3	62.1	24.0	19.1
PE - at target price (x)	24.1	69.0	74.8	28.9	22.9
EV/EBITDA (x)	12.5	14.9	16.1	10.2	8.9
EV/EBITDA - at target price (x)	15.5	18.5	20.0	12.7	11.1
P/BV (x)	3.6	3.8	3.9	3.7	3.6
P/BV - at target price (x)	4.4	4.6	4.6	4.4	4.3
P/CFO (x)	14.0	14.6	19.0	12.9	11.7
Price/sales (x)	3.0	3.9	3.9	3.2	2.8
Dividend yield (%)	4.6	1.8	1.6	4.2	4.9
FCF Yield (%)	5.6	6.4	4.5	6.6	7.4
(Bt)					
Normalized EPS	2.8	1.0	0.9	2.3	3.0
EPS	2.8	1.0	0.9	2.3	3.0
DPS	2.6	1.0	0.9	2.3	2.8
BV/share	15.5	14.7	14.6	15.4	15.8
CFO/share	4.0	3.9	3.0	4.4	4.8
FCF/share	3.2	3.6	2.5	3.7	4.2

PE looks undemanding, in our view, given M's earnings turnaround

Sources: Company data, Thanachart estimates

We assume an earnings recovery in 2H21F, continuing into 2022F

FINANCIAL RATIOS

FY ending Dec	2019A	2020A	2021F	2022F	2023F
Growth Rate					
Sales (%)	3.8	(23.3)	0.7	22.1	13.8
Net profit (%)	1.2	(65.1)	(7.7)	158.3	26.2
EPS (%)	1.2	(65.1)	(7.7)	158.3	26.2
Normalized profit (%)	(2.7)	(65.1)	(7.7)	158.3	26.2
Normalized EPS (%)	(2.7)	(65.1)	(7.7)	158.3	26.2
Dividend payout ratio (%)	92.0	101.5	100.0	100.0	93.0
Operating performance					
Gross margin (%)	68.5	65.7	65.4	66.5	66.8
Operating margin (%)	15.8	6.3	6.0	14.6	16.6
EBITDA margin (%)	20.2	22.3	20.2	25.9	25.9
Net margin (%)	15.2	6.9	6.5	13.5	15.1
D/E (incl. minor) (x)	0.0	0.0	0.0	0.0	0.0
Net D/E (incl. minor) (x)	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)
Interest coverage - EBIT (x)	na	11.4	13.9	354.7	na
Interest coverage - EBITDA (x)	na	40.6	46.7	na	na
ROA - using norm profit (%)	14.8	4.7	4.1	10.5	13.2
ROE - using norm profit (%)	18.3	6.5	6.2	15.7	19.0
DuPont					
ROE - using after tax profit (%)	18.6	6.6	6.5	16.0	19.7
- asset turnover (x)	1.0	0.7	0.7	0.8	0.9
- operating margin (%)	18.4	8.5	7.9	16.5	18.4
- leverage (x)	1.2	1.4	1.5	1.5	1.4
- interest burden (%)	100.0	93.5	94.5	99.7	99.9
- tax burden (%)	82.7	86.8	86.7	82.0	82.0
WACC (%)	8.2	8.2	8.2	8.2	8.2
ROIC (%)	51.5	11.5	11.9	38.1	45.6
NOPAT (Bt m)	2,270	726	701	1,971	2,541
invested capital (Bt m)	6,310	5,881	5,171	5,575	5,861

Sources: Company data, Thanachart estimates

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